

## Message Text

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16

ACTION EA-14

INFO OCT-01 EUR-25 ADP-00 DOTE-00 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

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LAB-06 SIL-01 L-03 TAR-02 RSR-01 /154 W

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R 310630Z AUG 73

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 1602

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: EFIN, EIND, EMIN, AS

SUBJ: AMBASSADOR'S INTRODUCTORY CALL ON MINISTER FOR OVERSEAS

TRADE AND SECONDARY INDUSTRY

1. SUMMARY. AMBASSADOR PAID INTRODUCTORY CALL AUGUST 29 ON DR. JAMES CAIRNS, AUSTRALIAN MINISTER FOR OVERSEAS TRADE AND MINISTER FOR SECONDARY INDUSTRY. THIS MESSAGE SUMMARIZES WITH EMBASSY COMMENTS THE TWO PRINCIPAL TOPICS COVERED: RESTRUCTURING AUSTRALIA'S AUTO INDUSTRY (PARA 2-5 BELOW) AND PLANS FOR EXPANDING AUSTRALIAN INDUSTRY DEVELOPMENT CORPORATION (PARA 6-7). END SUMMARY.

2. AUTO INDUSTRY. DISCUSSION FOLLOWED WITHIN 36 HOURS CAIRNS' ANNOUNCEMENT OF CABINET REQUEST THAT TARIFF BOARD RECOMMEND PLAN FOR RESTRUCTURING THE AUTOMOBILE INDUSTRY, LIMITED OFFICIAL USE

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INCLUDING THE POSSIBLE ENTRY OF NISSAN AND TOYOTA AS

THE FIFTH AND SIXTH MANUFACTURERS IN AUSTRALIA.

3. CAIRNS DESCRIBED TENTATIVE ARRANGEMENTS WITH NISSAN AND TOYOTA, AND THE ADVANTAGES THEY APPEARED TO OFFER FOR AUSTRALIA. BOTH COMPANIES ARE RECEPTIVE TO NUMEROUS AUSTRALIAN GOVERNMENT OBJECTIVES, INCLUDING THE ENTRY OF AUSTRALIAN PRIVATE AND GOVERNMENTAL EQUITY. CAIRNS EXPECTS THAT THE ENTRY OF THESE TWO MANUFACTURERS WOULD REDUCE THE COST OF MOTOR VEHICLES, AND IMPROVE THEIR DESIGN IN RELATION TO AUSTRALIAN NEEDS.

4. AMBASSADOR ASKED WHAT CAIRNS THOUGHT THE EFFECTS OF THESE NEW ENTRIES WOULD BE ON THE EXISTING FOUR MANUFACTURERS, GM, FORD, CHRYSLER AND BRITISH LEYLAND. CAIRNS SAID THERE OBVIOUSLY WOULD BE INCREASED COMPETITION BUT DID NOT GO BEYOND THIS EXCEPT TO OBSERVE POINTEDLY THAT THE AMERICAN COMPANIES HAD NEVER BEEN RECEPTIVE TO AUSTRALIAN EQUITY. HE ALLUDED TO THE WIDELY-HELD VIEW THAT THERE IS NOT ROOM IN THE AUSTRALIAN MARKET FOR SIX PROFITABLE PRODUCERS. HE SUGGESTED THAT IF THIS WERE THE CASE, PRODUCTIVITY COULD BE IMPROVED BY COMPLEMENTARY PRODUCTION ARRANGEMENTS UNDER WHICH AUSTRALIAN PLANTS OF EXISTING MANUFACTURERS WOULD PRODUCE CERTAIN PARTS FOR ASSEMBLY PLANTS THROUGHOUT AUSTRALASIA WHILE OTHER PARTS WOULD BE WHOLLY IMPORTED FROM PLANTS IN OTHER PARTS OF AUSTRALASIA FOR ASSEMBLY IN AUSTRALIA. THROUGH THE RESULTING LONGER PRODUCTION RUNS HE HOPED THAT COSTS MIGHT BE REDUCED.

5. EMBASSY COMMENT: WHILE THE EMBASSY HAS HAD NO DIRECT APPROACHES FROM THE AMERICAN MOTOR VEHICLE PRODUCERS, CHRYSLER AND POSSIBLY OTHER PRODUCERS HAVE PUBLICLY OPPOSED ENTRY OF NISSAN AND TOYOTA. IT SEEMS REASONABLE THAT THE ENTRY OF THE JAPANESE PRODUCERS WOULD HAVE NEGATIVE EFFECTS UPON THE EXISTING PRODUCERS AND FORCE IMPORTANT CHANGES IN THE INDUSTRY. IN THE EVENT, MOREOVER, THAT THE CABINET MAINTAINS THE PRESENT DECISION TO DISCONTINUE AUSTRALIA'S EXPORT INCENTIVES SCHEME AFTER JUNE 1974 THE DIFFICULTIES OF THE PRESENT PRODUCERS WILL BE LIMITED OFFICIAL USE

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INCREASED SINCE THEY HAVE BEEN MAJOR FINANCIAL BENEFICIARIES OF EXPORT INCENTIVE SCHEME. BUT THE FINAL OUTCOME OF THIS MATTER IS NOW FAR FROM CERTAIN. THE TERMS OF THE CABINET'S ASSIGNMENT TO THE TARIFF BOARD PRESCRIBE TO THE BOARD A VARIED AND AMBITIOUS LIST OF OBJECTIVES AND DIRECT THE BOARD TO PREPARE COMPREHENSIVE RECOMMENDATIONS FOR THEIR REALIZATION. UNTIL THE BOARD RECOMMENDATIONS AND THE GOVERNMENT'S

ACTION THEREON ARE KNOWN IT WILL NOT BE POSSIBLE TO ASSESS EITHER THE IMPACT ON THE EXISTING INDUSTRY, OR WHETHER THE PACKAGE WILL IN FACT RESULT IN JAPANESE ENTRY AS ADDITIONAL MANUFACTURERS IN AUSTRALIA.

6. AIDC. CAIRNS DESCRIBED HIS PLANS FOR EXPANSION OF THE AIDC. HE EMPHASIZED THAT THE CORPORATION WOULD HAVE EXTREME FLEXIBILITY IN WORKING OUT ARRANGEMENTS IN INDIVIDUAL CASES AND THAT THE LEGISLATION BEING INTRODUCED WILL BE PERMISSIVE RATHER THAN MANDATORY WITH RESPECT TO AIDC PROCEDURE AND APPROACH. COMMENTING ON REMAINING ROLE FOR FOREIGN CAPITAL OUTSIDE OF THE AIDC CHANNEL, MINISTER GAVE SLIGHTLY MORE FAVORABLE PICTURE THAN SOME OTHER COMMENTATORS. HE STRESSED THAT THERE WAS NO A PRIOR PROHIBITION ON THE ENTRY OF FOREIGN DIRECT INVESTMENT AND THAT NO AIDC MONOPOLY OF THE ENTRY OF FOREIGN CAPITAL WAS CONTEMPLATED. UNDER QUESTIONING HOWEVER HE CONCEDED THAT DIFFERENT GOVERNMENT SPOKESMEN HAVE TAKEN DIFFERING LINES ON QUESTION OF FOREIGN INVESTMENT IN RECENT MONTHS AND THAT THE PRECISE TERMS ON WHICH FOREIGN INVESTMENT WOULD ENTER IN THE FUTURE REMAIN TO BE LAID DOWN.

7. EMBASSY COMMENT: IT IS CLEAR THAT MANY DETAILS OF THE WAY IN WHICH AIDC WILL OPERATE, AS WELL AS THE GENERAL QUESTION OF THE TERMS OF ENTRY FOR FOREIGN CAPITAL, STILL REMAIN TO BE WORKED OUT. EXACTLY HOW THE AIDC MIGHT BE EXPECTED TO CONTRACT WITH FOREIGN BORROWERS REMAINS EXCEEDINGLY VAGUE AT THIS TIME AND FOR THIS REASON THE EFFECT OF THE AIDC ON THE ALTERNATIVE OPPORTUNITIES FOR FOREIGN PRIVATE INVESTMENT IS NOW DIFFICULT TO PREDICT.

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